February 10, 2014

Director Mel Watt
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

RE: ASF Support of Marginal Reduction in 2014 GSEs' Conforming Loan Limits

Dear Mr. Watt,

On behalf of the American Securitization Forum ("ASF"),[1] I am writing to reiterate our strong support for marginally reducing the conforming loan limits of Fannie Mae and Freddie Mac ("GSEs") under the Federal Housing Finance Agency's ("FHFA") authority as conservator of the GSEs, in light of FHFA's recent request for public comment on the matter.[2] In 2013, we expressed to former FHFA Acting Director Edward DeMarco that such incremental reductions would be appropriate for the following reasons: (i) as a means to begin scaling back the outsized role the GSEs currently play in the U.S. housing finance system and encourage the return of private capital; (ii) FHFA has the legal authority in its role as conservator to act according to its dual mandate; and (iii) the timing of any Congressional action on wide-ranging housing finance reform remains uncertain.

Since the onset of the financial crisis in 2007, the market for residential mortgage-backed securities ("RMBS") has been completely dominated by the federal government, which is directly or indirectly responsible for guaranteeing the credit risk of approximately 90% of new mortgage originations in the United States today. Meanwhile, the portfolio lending on banks' balance sheets continues to be relatively small, particularly as they begin to undertake more conservative risk-based capital requirements under Basel III. ASF members, along with virtually all other market participants and policymakers from both sides of the political aisle, believe that this level of government involvement is neither sustainable nor advisable, particularly given the strong policy focus of long-term U.S. budget deficit reduction. As such, ASF has consistently advocated for certain policies[3] to be implemented in the short-term to further the process of bringing private

[1] The American Securitization Forum is a professional forum through which participants in the U.S. securitization market advocate their common interests on important legal, regulatory and market practice issues. The ASF also provides information, education and training on a range of securitization market issues and topics through conferences, seminars and similar initiatives. For more information about ASF and its activities, please go to www.americansecuritization.com.

[2] *See* http://www.fhfa.gov/webfiles/25884/LoanPurchaseLimitsInputFINALpkg121613.pdf.

[3] *See* http://www.americansecuritization.com/WorkArea/DownloadAsset.aspx?id=9337 for ASF's April 23, 2013 White Paper, "ASF Policy Proposals to Increase Private Capital in the U.S. Housing Finance System," and http://www.americansecuritization.com/WorkArea/DownloadAsset.aspx?id=9601 for ASF's July 18, 2013 testimony

capital back into the housing finance market by incrementally reducing the government guaranteed market—first and foremost by marginally reducing conforming loan limits.

Some commentators express the view that, in addition to other related measures, it is important to maintain conforming loan limits at their current high levels at this time in order preserve the GSE-guaranteed market share, as the housing recovery remains fragile and private capital has not yet entered the housing finance market in significant amounts. However, we believe that the reverse is true—the factors that maintain the GSEs' high market share are some of the same factors that are keeping private capital out of these markets. High conforming loan limits curtail the availability of loans for sale into the private-label RMBS market, in particular because current economics, such as an artificially low government guarantee fee, heavily favor GSE execution. As such, marginally reducing the conventional conforming loan limits from $417,000 to $400,000 would push approximately 1.8%[4] of home loans out of the GSE market and into a functional private-label securitization market or onto banks' balance sheets. There has been widespread acknowledgement for the last five years since the GSE were put into conservatorship that the U.S. must move towards considerably reducing the government's role in housing finance and concurrently, substantially increasing the level of private capital in the system. But opposing simple and marginal reductions in GSE loan limits appears highly inconsistent with expressions of interest in reducing the government footprint in the U.S. housing finance system. Simply put, if no part of the U.S. government ever decides to ratchet down the government's involvement, even on a small volume of loans, only lip service will have been paid to the notion of bringing more private capital back into the U.S. housing finance system.

In addition, we applaud FHFA's risk-sharing initiative allowing private companies to assume some of the risk borne by the GSEs, such as Fannie Mae's recently finalized deal to provide mortgage insurance coverage on a pool of single-family mortgages intended to reduce taxpayer exposure to risk. ASF has long been supportive[5] of such GSE risk-sharing transactions that sell credit risk to private investors without a guarantee. Employing these structures helps to bring private capital back to the market by further testing the market's willingness to absorb credit risk through further price discovery. However, we do not believe these structures will be, should be, or are meant to be a replacement for private-label RMBS; rather, these structures are simply another means to entice private credit risk investment, and should be pursued simultaneously with other measures, such as marginally reducing conforming loan limits.

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before the House Committee on Financial Services regarding the PATH Act, for more information on the importance of reducing the government role in housing finance and ASF's detailed policy proposals for facilitating the return of private capital to the U.S. housing finance system.

[4] 154,000 loans out of the approximately 8.6 million loans originated in 2012 (*see* http://www.a-e-a.org/resources/2013.10.08Loan%20Limits%20Coalition%20Letter%20to%20FHFA.pdf for the October 8, 2013 joint coalition letter opposing out reduced loan limits for the 154,000 number and *see* http://www.lpsvcs.com/LPSCorporateInformation/NewsRoom/Pages/013113.aspx#.Ulbvo9Lrxlc for information from LPS's Mortgage Monitor Report on 2012 originations).

[5] *See* http://www.americansecuritization.com/WorkArea/DownloadAsset.aspx?id=8558 for ASF's December 3, 2012 comment letter in response to FHFA's October 4, 2012 common securitization platform White Paper for more information on ASF's ongoing support for risk-sharing transactions.

Therefore, we strongly encourage FHFA set a definitive and forward looking schedule of publicly disclosed incremental loan-limit reductions. In addition, we continue to support the premise that higher cost areas should have appropriately higher loan limits than lower cost areas. However, even maintaining these different levels still allows for incremental decreases in conforming loan limits. The reductions under consideration are only marginal – from $417,000 to $400,000 in lower cost areas and from $625,500 to $600,000 in higher cost areas – and would therefore not result in dire and disruptive effects some predict. Moreover, given that the median home mortgage in America is approximately $200,000, the U.S. middle class will be unaffected by such a marginal reduction in the 'jumbo conforming' loan limit.

Further, we believe it is entirely within FHFA's legal authority as conservator to reduce the GSEs' loan limits without separate Congressional action. In this role, FHFA retains overall authority over the entities, in accordance with FHFA's legal mandate, in order to act in their best interests and over the longer term reduce the overall footprint of the GSEs. We are encouraged by the housing finance reform efforts of the House and Senate over the past five years that have resulted in the recent introductions of the "Protecting American Taxpayers and Homeowners Act" ("PATH Act") and the Corker-Warner "Housing Finance Reform and Taxpayer Protection Act of 2013." However, given the current political environment and other priorities currently before Congress, it is unrealistic to expect any housing finance grand compromise legislation to be enacted in the very near future. As such, unless or until Congress initiates concrete steps to reduce the government role in the housing finance system, it is fully within FHFA's power and prerogative as conservator to incrementally do so in the interim, just as FHFA has moved forward with the GSE risk sharing transactions and the Common Securitization Platform.

ASF very much appreciates your attention regarding this important matter, and we look forward to discussing any concerns. We believe such marginal reductions in conforming loan limits would appropriately increase the loans available for private-label execution, and further create an environment in which broader housing finance reform is feasible. Encouraging marginal increases in private capital flow now will serve to better inform the market and debate in the coming months and years, including helping to determine the appropriate level of private capital in the housing finance market. Should you have any questions or desire any clarification concerning the matters addressed in this letter, please do not hesitate to contact me at 212.412.7107 or via email at tdeutsch@americansecuritization.com.

Sincerely,

Tom Deutsch
Executive Director
American Securitization Forum